



Northumberland

County Council

CABINET

10 NOVEMBER 2020

Budget 2021-22 and Medium-Term Financial Plan 2021-2024

Report of Chris Hand, Executive Director Finance and Section 151 Officer

Cabinet Member: Nicholas Oliver, Portfolio Holder for Corporate Services and Cabinet Secretary

Purpose of report

This report provides an update on the development of the 2021-22 Budget and the Medium-Term Financial Plan (MTFP) covering the period 2021 to 2024. This report also details budget proposals for 2021-22 to meet the budget gap, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement 2021-22 in December 2020.

Recommendations

Members are requested to:

- 1. Note the revisions to the assumptions within the 2021-22 Budget.**
- 2. Approve the budget balancing measures for 2021-22 totalling £8.299 million, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement 2021-22.**
- 3. Note that further work is required to refine the Medium-Term Financial Plan and that there are still budget balancing measures required to be identified over the term of the Medium-Term Financial Plan.**

Link to Corporate Plan

The Council's budget and Medium-Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2018-21 "A Council that Works for Everyone".

Key issues

1. Local government is operating in a period of significant financial uncertainty brought about by ongoing significant budget pressures (including in social care, special educational needs, and disability services), as well as other unfunded pressures arising from demographic and pay and price inflation. Forecasting the likely ongoing impact of Covid-19 upon the Council's expenditure, income and Government funding levels add a further layer of complexity and uncertainty. Unless additional Government funding is provided in the spending review, the financial outlook for the Council will continue to be extremely challenging for the foreseeable future.
2. There continues to be significant uncertainty in terms of the financial settlement for local government and how the available funding will be shared between local authorities through the funding formula. The Government was previously expected to publish a Comprehensive Spending Review (CSR) in summer 2019 covering a period of three years. The CSR is now expected to be published in November 2020, and will only cover the 1-year period 2021-22. Government is already indicating that there will be tough choices in relation to investment in public services, particularly in light of the significant budget deficit forecast that the country faces as a result of Covid-19. The UK exit from the European Union also presents further uncertainty.
3. It was previously expected that the outcome of the Fair Funding Review (FFR), including the move to 75% Business Rate Retention, would have been implemented during 2021-22, however this has been delayed due to the impact of the coronavirus pandemic. It is now expected that the outcome of the FFR will not be implemented until 2022-23 at the earliest. This adds further uncertainty and complexity to medium term financial planning.
4. The lack of clarity in relation to the CSR and FFR is exacerbated by uncertainties in relation to future council tax referendum levels, future funding of the Improved Better Care Fund, delays in the publication of the Social Care Green Paper, short term funding provided to local authorities in 2020-21 for adult and children social care pressures and funding for the High Needs element of the Dedicated Schools Grant. This level of uncertainty makes financial planning extremely difficult and requires the Council to be flexible and adaptable as it considers setting the 2021-22 Budget and the Medium-Term Financial Plan. Robust financial planning arrangements within the Council will ensure that the Council is well placed to react effectively to any outcome. However, planning with this level of uncertainty is not conducive to effective long-term decision making.
5. At this stage it has been assumed that there are no net long term financial impacts from Covid-19 other than a short-term depression in tax base increases. This applies to both increased cost pressures and loss of income. As the budget is refined, consideration will need to be given to the risk of reduced income and the extent to which this may be covered through the

Government's Income Guarantee Scheme going forward and the extent of Covid-19 expenditure pressures and future government support that may be available. This position will be kept under review and assumptions will be amended if it becomes apparent that there will be a financial impact in 2021-22 and over the timeline of the MTFP.

6. To ensure the MTFP can be developed effectively and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
7. The current MTFP forecast, that the Council agreed on 19 February 2020, covered the two-year period 2020-21 to 2021-22. It is recommended at this stage that the MTFP covers a three-year period 2021-22 to 2023-24 and this will be presented to full Council in February 2021. Planning across the medium term in this way ensures that decisions can be made in the knowledge of the likely financial position of the Council and provides a basis for effective decision making whilst taking account of the best estimates of income and expenditure.
8. Government has stated that there will be an announcement of a one-year financial settlement for local government, although the details are not expected to be published until late December 2020. Work will continue on the MTFP to incorporate the outcome of the financial settlement, and this will be presented to full Council in February 2021.
9. In line with previous practice the Budget for the next year and the MTFP model has been reviewed. A savings requirement of £8.299 million has been identified as required to balance the budget for 2021-22, and provisional savings requirements of £19.843 million and £15.319 million have been calculated as necessary for the following two financial years. This will continue to be reviewed as the MTFP is updated, and early identification and planning for savings required in the later years of the MTFP will be essential.
10. This report sets out budget savings proposals totalling £8.299 million identified for 2021-22. Work will continue to identify proposals over the following two years of the MTFP.
11. Savings proposals have been and will continue to be developed using the following principles:
 - a) Setting a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.
 - b) Investing to save; recognising that one-off resources can be used to generate future savings that will pay back the investment.
 - c) Ensuring that service and financial planning is fully aligned with the Corporate Plan.
 - d) Continuously reviewing services in order to keep reductions to front line services to a minimum.

- e) Maintaining the Council's strong financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes.
- f) Maintaining a commercial focus and maximising income generation while at the same time managing risk.
- g) Ensuring the Council can demonstrate value for money in the delivery of its priorities.

Background

1. Medium-Term Financial Plan 2021-22 to 2023-24

- 1.1. The Medium-Term Financial Plan was presented to Council on 19 February 2020 when the budget was set for 2020-21. The report set out a number of assumptions and identified a gap of £21.824 million from 2020-21 to 2021-22.
- 1.2. The MTFP is currently being updated to cover the period 2021-22 to 2023-24. Savings of £8.299 million have been identified to balance the budget for 2021-22 and a further savings requirement of £19.843 million for 2022-23 and £15.319 million for 2023-24 has also been identified.
- 1.3. The plan will continue to be updated to reflect changing circumstances and a revised MTFP will be presented to the Cabinet as the budget process develops.

2. Review of the Medium-Term Financial Plan

- 2.1. The financial outlook for the Council continues to be extremely challenging. The national finances are in a highly uncertain position due to Covid-19 and the impact of the UK exit from the European Union. The Government is indicating that tax rises are being considered but that unprotected Government departments could face further funding reductions.
- 2.2. The assumptions for the 2021-22 Budget and MTFP are currently as follows:
 - a) **Revenue Support Grant (RSG) and Fair Funding Review (FFR)**
 - (i) that the Council will receive a cash flat government settlement over the period of the MTFP;
 - (ii) that additional funding received for Adults and Children's Social Care in 2020-21 will become recurrent;
 - (iii) that there will be no increase or decrease in the Better Care Fund;
 - (iv) that the council tax referendum level will be 2% over the MTFP period and that additional Adult Social Care Precepts will not be applicable. It has been assumed that council tax increases will be in line with the referendum level in each of the next three years.

At this stage any of the assumptions made could be subject to change as a result of the CSR, the FFR and the publication of the provisional local government finance settlement, which is expected in December 2020.

b) New Homes Bonus (NHB)

As in the previous MTFP it is assumed that the NHB legacy payments continue to reduce annually, and the 2020-21 allocation was non recurrent, in line with previous Government guidelines. Furthermore, it is assumed that there will be no NHB allocation in 2021-22. On that

basis it is presently forecast that there will be a £2.858 million reduction in NHB in 2021-22.

c) **Council Tax and Business Rate Tax Base Increases**

Regular reviews are carried out in relation to tax base forecasts. The tax base is impacted by new builds, the incidence of uptake of discounts and exemptions, with a further major variable being the impact of the local council tax reduction scheme. At this stage it is considered prudent to assume a slight reduction in the tax base for 2021-22 but to continue to forecast tax base growth from new developments over the remainder of the MTFP period. However, the forecast of tax base growth has been reduced from previous MTFP forecasts mainly resulting from an assessment of the impact of Covid-19 both upon future levels of house building and business growth but also on the incidence of local council tax reduction claims. The forecast for the tax base for 2021-22 will be closely monitored in the coming weeks in what is a very volatile area.

d) **Pay Inflation**

There has been no indication at this stage of what impact Covid-19 may have on the setting of the 2021-22 National Living Wage (NLW). Until further information is provided an estimated NLW increase has been included for social care budgets across the MTFP period. An annual pay inflation allowance has also been included for pay costs across the MTFP period in relation to national pay negotiations. The final determination of these pay inflation factors will impact on the MTFP assumptions.

e) **Pressures, Growth and Demographic Changes**

Money has been set aside for adult social care within the proposals to accommodate growth in the ageing adult population in Northumberland as well as funding to replace a grant which will no longer be received by the service.

Children's services have continued to overspend due to an increase in numbers and there is a pressure within the service which it is considered prudent to address. The Council has also experienced an increase in the number of special education needs pupils who require home to school transport.

There has been pressure on the winter services budget in the last few years which has resulted in an overspend; therefore funding has been allocated to rebase this budget.

Resources are also being proposed to enable the Council to respond to the Borderlands initiative and the regeneration of the county's economy as well as meeting the Council's statutory and regulatory duties with regard to Public Protection.

- 2.3. It is important to note that at this stage it is assumed that there is no net long term financial impact from Covid-19, other than a lower than forecast increase in tax base for 2021-22. The Council has faced significant additional costs due to Covid-19, but at this stage it is expected that these will dissipate over the coming months. In terms of income loss within service groupings it is assumed that income levels will be restored to pre Covid-19 levels by April 2021. At this stage it is assumed that Government support through Covid-19 grants and compensation for lost income ends after the current financial year.
- 2.4. These assumptions will be kept under review and the MTFP refined as necessary, in light of how coronavirus develops over the coming months and the impact this has on the Council's financial position and the level of ongoing Government support.

3. Savings

- 3.1 Directorates were asked to assess the deliverability of agreed savings for both the current year (2020-21) and 2021-22. The assessment was carried out using the following principles:
 - a) Original permanent planned savings for 2020-21 will be achieved or an alternative must be delivered on an on-going basis in 2021-22;
 - b) Savings originally identified and verified as deliverable for 2021-22 will be achieved.
- 3.2 Work is ongoing to develop delivery plans for those savings that have not yet been realised, and Executive Directors have been asked to identify alternative proposals where necessary. It is recognised that the delivery of savings in the current year has been extremely challenging and, in some cases, not possible as a result of the Covid-19 pandemic.
- 3.3 In order to ensure delivery of a balanced budget work has commenced on identification and development of additional savings proposals. The recommended framework and MTFP principles surrounding the development of these plans is shown on page 3.

3.4 The following paragraphs provide an overview of the savings proposals:

Adults, Wellbeing and Health

Priorities will be examined in order to maximise funding, alongside the assessment of further efficiencies in telecare, operational staffing and in-house services. The service will also continue to manage staff budgets in relation to turnover and vacancies and negotiate contracts in order to generate savings. These proposals are expected to deliver savings of £3.222 million in 2021-22.

Children's Services

The Council will continue to manage staff budgets in relation to turnover and vacancies in order to generate savings. A number of services will be reviewed, such as fostering & adoption, SEND, youth service, careers guidance and education and skills, in order to develop better models of delivery, without adversely impacting on front line service delivery. The management tier of the Directorate will also be reviewed with a view to delivering savings. These proposals are expected to deliver savings of £1.414 million in 2021-22.

Community Services

Income opportunities and fee optimisation will continue to be developed across all service areas. There will also be a review of contracts. The proposals identified in this portfolio are expected to deliver savings of £1.132 million in 2021-22.

Corporate Services

The management of staffing and vacant posts, a review of back-office services and the non-staffing budgets, centralisation of training budgets and a renewal of contracts is expected to deliver savings totalling £0.951 million in 2021-22.

Culture, Arts and Leisure

The Council will be working with partners to develop efficiencies in service delivery and ensure that the fee to Active Northumberland for providing services is reduced over the medium term. In relation to libraries, savings will be achieved through a consolidated, more sustainable, network of buildings, increased collaborative provision and a wider digital offer. These proposals are expected to deliver savings of £0.510 million in 2021-22.

Local Services

A review of transport contracts will take place which will generate the majority of savings in this area. Income opportunities and fee optimisation will continue to be developed across all service areas. It is envisaged that these proposals will deliver savings of £1.070 million in 2021-22.

Corporate and Cross Directorate Initiatives

All services have committed to new ways of working and reducing their carbon footprint. Wherever possible a reduction of 25% to travel and

subsistence budgets has been identified. This equates to £0.336 million and is included in the savings figures shown above.

- 3.5 The budget planning process is a continuing and iterative process, and further additional savings will be required over the life of the MTFP. Work is ongoing to develop proposals for the required savings, and this will be supported by the Improvement and Innovation Team. However, it may be necessary for the Council to consider utilising some of its reserves non-recurrently to fund any gap.

4. Budget Consultation Strategy

- 4.1 The Council recognises that consultation is an important part of planning and delivering services that meet people's needs. This is set out in the Corporate Plan:

a. *".. we know that we still face tough decisions that will not be universally popular. We will not take these lightly and pledge that we will pay attention and act on your concerns."*

- 4.2 The purpose of the general budget consultation with residents and stakeholder groups is to communicate the budget challenge; ascertain an understanding of people's views on the way we plan to meet this challenge; and, determine whether views differ for different groups. This will be used to help guide and inform the annual budget setting process. Where proposals will potentially have greater impact on the public or on groups protected by equality law, services will carry out their own consultation on the detailed proposals and work closely with our most vulnerable residents to help them understand what changes to services may mean for them.
- 4.3 Budget consultation will commence and will run for six weeks to allow for full discussion and debate at local area councils; parish and town councils; and, with staff and the unions.
- 4.4 Service areas will consult on their budget proposals directly with individual services users, partners and key stakeholders.
- 4.5 Feedback on budget consultation will be online.
- 4.6 Consultation will be promoted primarily through local and social media channels, linking through the Council's budget website.

Implications

Policy	This is the fourth year of this Administration’s Medium-Term Financial Plan; and, it fully supports the priorities outlined in the Corporate Plan 2018-21 - A Council that Works for Everyone.
Finance and value for money	The financial implications of the 2021-22 Budget and the Medium-Term Financial Plan are detailed within this report. 2022-23 and beyond will continue to be challenging.
Legal	The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. The Act also states that the Council has got to set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.
Procurement	There are no specific Procurement implications within this report.
Human Resources	The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
Property	The individual proposals will carefully consider the impact with regard to property requirements.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	<p>All individual budget savings proposals for 2021-22 are being, or will be, screened for potential equality implications, and where potential equality impacts are identified, specific impact assessments are being, or will be, carried out unless the final decision on whether to proceed with the saving will be taken after the budget round. In those cases, impact assessments will be carried out before final decisions are taken and could potentially lead to decisions that some savings should not be made in their currently proposed form but should be achieved in other ways. An assessment of the equality impacts of the budget proposals as a whole is in preparation; this will be updated as work on the budget proceeds, including taking account of the outcome of consultations on elements of the savings proposals. A final version will be presented to the Council alongside the final budget proposals in February 2021.</p> <p>At this stage, the amounts indicated for 2022-23 and 2023-24 are simply initial savings that are expected to be required, based on current information and assumptions. As proposals are developed to achieve the overall savings for these years, they will be screened for potential equality considerations and, where potential impacts are identified, specific impact assessments will be carried out before final decisions are taken.</p>
Risk Assessment	The risks associated with the budget proposals will continue to be reviewed up to and including implementation of the detailed proposals.

Crime & Disorder	There are no specific Crime & Disorder implications within this report.
Customer Consideration	The individual proposals will carefully consider the impact upon both customers and residents of Northumberland.
Carbon reduction	The budget makes financial provision for the carbon taxes levied by the Government and the Council has implemented and continues to develop proposals concerning the management of energy.
Health & Wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	All wards.

Background papers:

Cabinet report: 11 February 2020 Budget 2020-21 and Medium-Term Financial Plan 2020-22.

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Name
Deputy Monitoring Officer/Legal	Neil Masson
Executive Director of Finance and Section 151 Officer	Chris Hand
Relevant Service Director	Chris Hand
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

Author and Contact Details

Alison Elsdon

Service Director: Finance

Telephone: 01670 622168

Alison.Elsdon@northumberland.gov.uk